



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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17-11 Colorado Springs Utilities Annual External Report on Executive Limitations (4) Asset Protection and (7) Financial Conditions and Activities

April 2017

Purpose

The purpose of this review was to determine whether Colorado Springs Utilities and the Utilities Chief Executive Officer complied with the existing Executive Limitations (EL) 4, Asset Protection Policy Prohibitions 1, 4, 6, 7, & 9, and all of EL-7, the Financial Condition and Activities Policy Prohibitions for the year ended December 31, 2016. In addition to verifying management's report, the Office of the City Auditor would report any known violations if such violations were not reported by management.

Highlights

We conclude that the Chief Executive Officer was in material compliance with policy prohibitions EL-4 and EL-7 with the exception of EL-7 – Prohibition 3. As reported by Colorado Springs Utilities management, Adjusted Debt Service Coverage (ADSC) for 2016 at 1.77, was below the 2.0 required by EL-7 – Prohibition 3.

We noted two opportunities for improvement, which would assist governance in their oversight role.

Our audit included the review of source documentation, and other audit procedures as we deemed necessary. We verified the accuracy and reliability of the statements made along with information presented in the EL-4 and EL-7 reports prepared by Colorado Springs Utilities for the Utilities Board.

The Utilities Board monitored the organization's operations through boundaries established by the Executive Limitations Policies. The Office of the City Auditor annually verifies compliance with Executive Limitations 4 and 7. Key components of the prohibitions were:

- Asset Protection (EL-4) - required that Colorado Springs Utilities have policies and procedures in place that ensure sound business practices to protect assets. These included purchasing and real estate regulations, investment procedures, bonding requirements for personnel with access to funds, and controls over receipt and disbursement of funds.
- Financial Condition and Activities (EL-7) - required compliance with financial measures such as cash on hand and debt service coverage. Additionally, this limitation required management to inform the Utilities Board of expenditures in excess of appropriations and major new or cancelled projects.

Opportunities For Improvement

1. Colorado Springs Utilities management should consider providing the dollar amount and Adjusted Debt Service Coverage impact of each of the primary variance drivers in the EL-7 report.
2. Colorado Springs Utilities should ensure that real estate transaction detail is complete if reported in future EL-4 Policy 9 comments.

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Opportunity 1

The variance explanation in the EL-7 report did not include the dollar amount or Adjusted Debt Service Coverage (ADSC) impact of each of the primary variance drivers. Additional information would allow report users to better understand the variance analysis. The final EL-7 – Prohibition 3 report for December 31, 2016 states:

Variance Explanation Large ECA/GCA refunding, ETL revenue shortfall, lower than expected water sales, and GASB 68 are the main drivers for this variance.

Colorado Springs Utilities properly disclosed compliance with ADSC requirements in the quarterly and annual EL-7 reports.

Management Response:

We will take this opportunity into consideration and will continue to work with Finance Committee to ensure they are aware of the variances and have the information they need.

Recommendation

Colorado Springs Utilities management should provide the dollar amount and ADSC variance impacts to the Finance Committee and in EL reporting explanations.

Opportunity 2

Colorado Springs Utilities reported real estate transactions in their comments to EL-4 Policy 9. The transactions did not include real estate acquired and settled in 2016 by the City Attorney's Office. Proper City Council processes were utilized in order to acquire the properties through the authority of eminent domain.

EL-4 Policy 9 did not require reporting of detailed transactions.

Management Response:

We agree and will work with City Real Estate Services and Attorney's Office to address the issue.

Recommendation

Colorado Springs Utilities should ensure that real estate transaction detail is complete if reported in future EL-4 Policy 9 comments.